Outlook 2021 – Brexit trade deal avoids large drop in farm income

The latest Outlook 2021 report by TEAGASC economists forecasts that the average family farm income in Ireland will increase by 3 % in 2021. Overall, some price inflation for farm inputs will be more than offset by higher prices for some farm outputs.

Brexit deal – EU-UK Trade and Co-operation Agreement

As 2020 came to a close and in the absence of a Brexit deal, Teagasc economists forecast an 18 % drop in average family farm income (FFI) in 2021. However, this latest revised Outlook Report takes into account the EU-UK Trade and Co-operation Agreement (TCA), which emerged on Christmas Eve of last year, providing for tariff-free access to qualifying goods. At least for the short to medium term, the TCA maintains Ireland's preferential market access to the UK market.

This has ended the prospect of a worst case impact on trade between the EU and UK. High tariffs on trade in agricultural goods would have been triggered on January 1 of this year had a trade deal not been agreed. Ultimately, the deal that has been agreed allows for continued tariff-free trade between the UK and EU, but it does mean that some new impediments to trade have emerged, in the form of customs, product certification checks and rules of origin checks. These checks arise as the UK has now left the EU Single Market and Customs Union, a system which for many years had facilitated trade without the need for such checks. While these new checks have made agri-food trade more cumbersome, they will in large part allow such trade to continue.

General market prospects for 2021 reflect a relatively stable outlook in terms of farm commodity prices. Given the Brexit trade deal now in place, Irish exports to the UK should not change appreciably in 2021.

Farm output and inputs 2021

Irish farm output prices are projected to increase marginally in 2021 for milk, while prices are set to rise about 4 % in the case of cattle and lamb. Pig prices are set to fall by 10 % in 2021, but this relates to reduced demand for EU pig meat exports and is unrelated to Brexit. International prices for cereals at harvest 2021 are expected to be slightly lower than 2020 harvest prices overall, due to projected increases in supply (**Figure 1**). In terms of farm inputs, there are a few cost pressures emerging in 2021, notably for fertiliser and, to a lesser extent, feed and motor fuel. Overall, costs of production are forecast to increase slightly in 2021.

Given the Brexit trade deal now in place, income movements on dairy and cattle farms should be fairly limited in 2021. 'Cattle other' (largely cattle finishing) and cattle-rearing systems should see an increase in income of 3-6 % in 2021, with higher production costs being offset by higher cattle prices.

On dairy farms, a marginal increase in milk prices coupled with an increase in milk output should be sufficient to offset higher production costs in 2021. Therefore, the average dairy farm income in 2021 is likely to be unchanged on the estimated 2020 level.

With Irish lamb prices expected to increase, the average sheep farm income is forecast to increase by 6 % in 2021, with many sheep farms also forecast to benefit from price improvements for their secondary cattle enterprise.

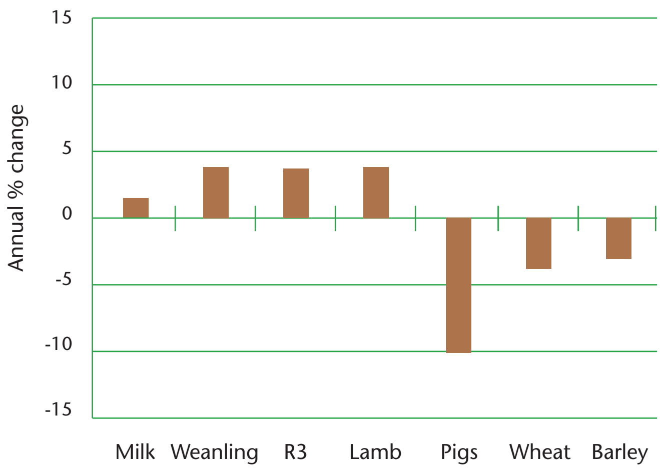

FIGURE 1: Forecast change in output prices 2021 vs 2020.

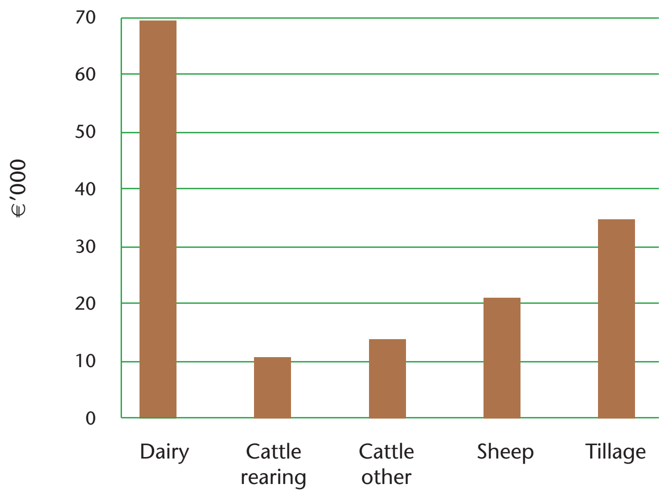

FIGURE 2: Average family farm income forecast 2021.

2021 – Trade post Brexit

- The EU and UK reached a Trade and Cooperation Agreement (TCA) on December 24, 2020.
- The TCA came into provisional effect on January 1, 2021.
- In 2021, qualifying exports from the UK to the EU can claim tariff-free access to the EU.
- In 2021, qualifying exports from the EU to the UK can claim tariff-free access to the UK.
- UK customs checks are only fully applied from January 1, 2022, while EU customs checks have been fully applied since January 1, 2021.

Tillage farms should see a significant improvement in farm income in 2021. The main drivers of this increase will be a higher level of cereal production, additional income from the secondary beef enterprise present on many of these farms, and a pilot straw chopping scheme. Collectively, these factors could be sufficient to increase tillage farm incomes by 17 % in 2021.

Family farm income 2021

Reflecting the agreed Brexit trade deal, the average FFI in 2021 is forecast to increase by a little over 3 % to about €25,600, as detailed in **Figure 2**. This compares to an anticipated reduction in farm income of 18 % in 2021 had no Brexit trade deal been agreed. It is estimated that the Brexit trade deal has avoided an income reduction in excess of €470 million for the Irish agricultural sector in aggregate in 2021.

This income forecast anticipates no dramatic movement in international product prices in 2021, reflecting an assumption that Covid-19 does not lead to any further significant market disruption.

Further detailed information is available in the revised Teagasc Outlook 2021, Economic Prospects for Agriculture, at www.teagasc.ie/media/website/publications/2021/Outlook2021revised.pdf.

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